



Management Control Training

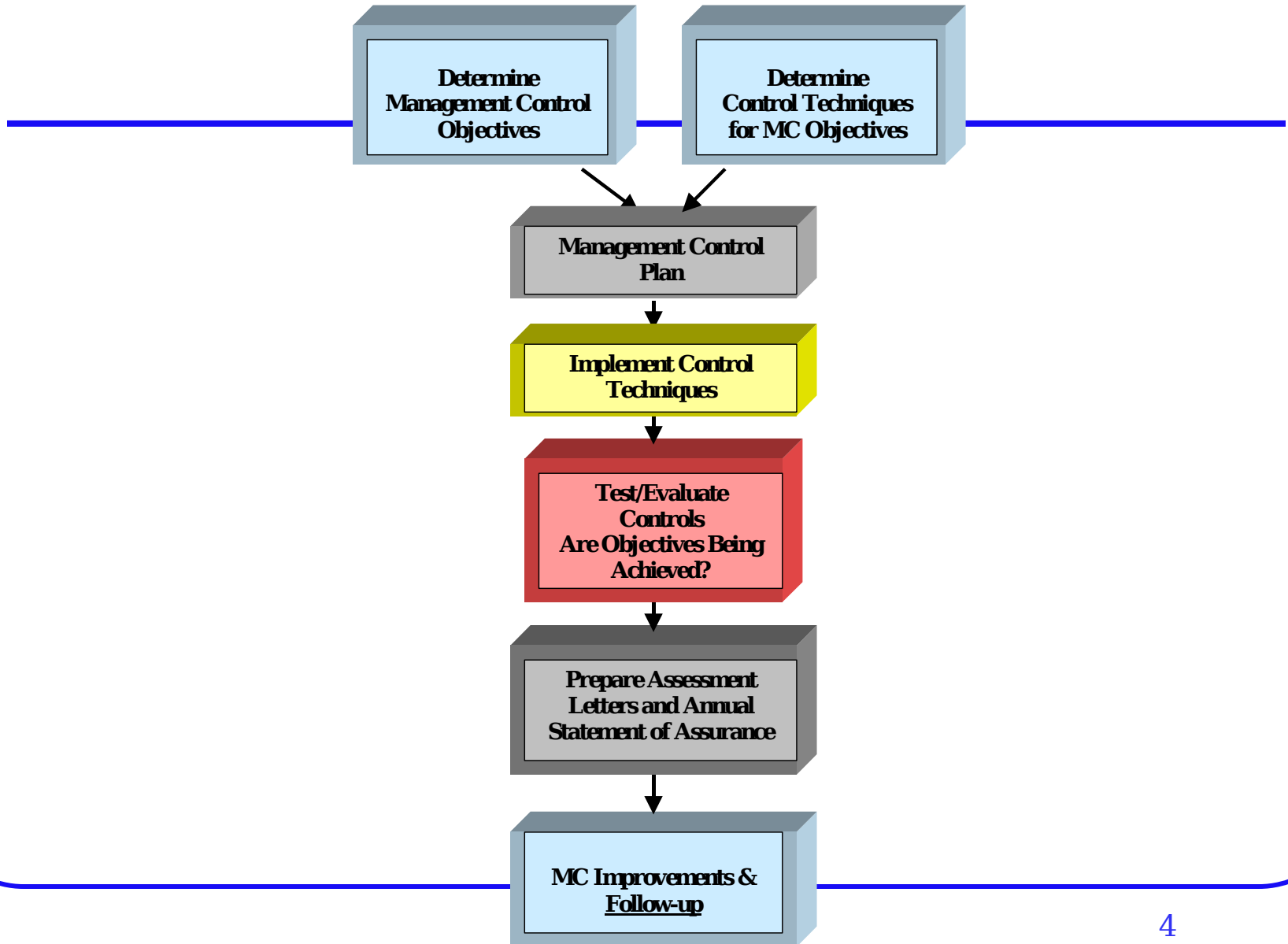
Module I

Overview and Objectives

Purpose

- **Provide attendees with an understanding of the MC process and the essential tools required for effective implementation.**

Management Control Process



MC-Your Friendly Watchdog

- **Management controls are proactive**
- **Management controls assist in outside audits**
- **Management controls are more than dollars**
- **Management controls come in different forms**

Module II

Real-Life Stories Management Controls Gone Awry!

Definition

Internal Control- An integral component of an organization's mgmt that provides reasonable assurance that the following objectives are being achieved.

- **Effectiveness and efficiency of operation**
- **Reliability of financial reporting, and**
- **Compliance with Applicable Laws and Regulations**

System of Management Programs in DLA



Why YOU are involved

- **Required by law**
- **Many weaknesses are long standing and have resulted in billions of dollars of losses and wasteful spending**
- **Proper accountability**
- **Maintaining public trust**
- **Achievement of agency objectives**

Module III

Brief History and Statutory/ Regulatory Basis

Internal Control Standards

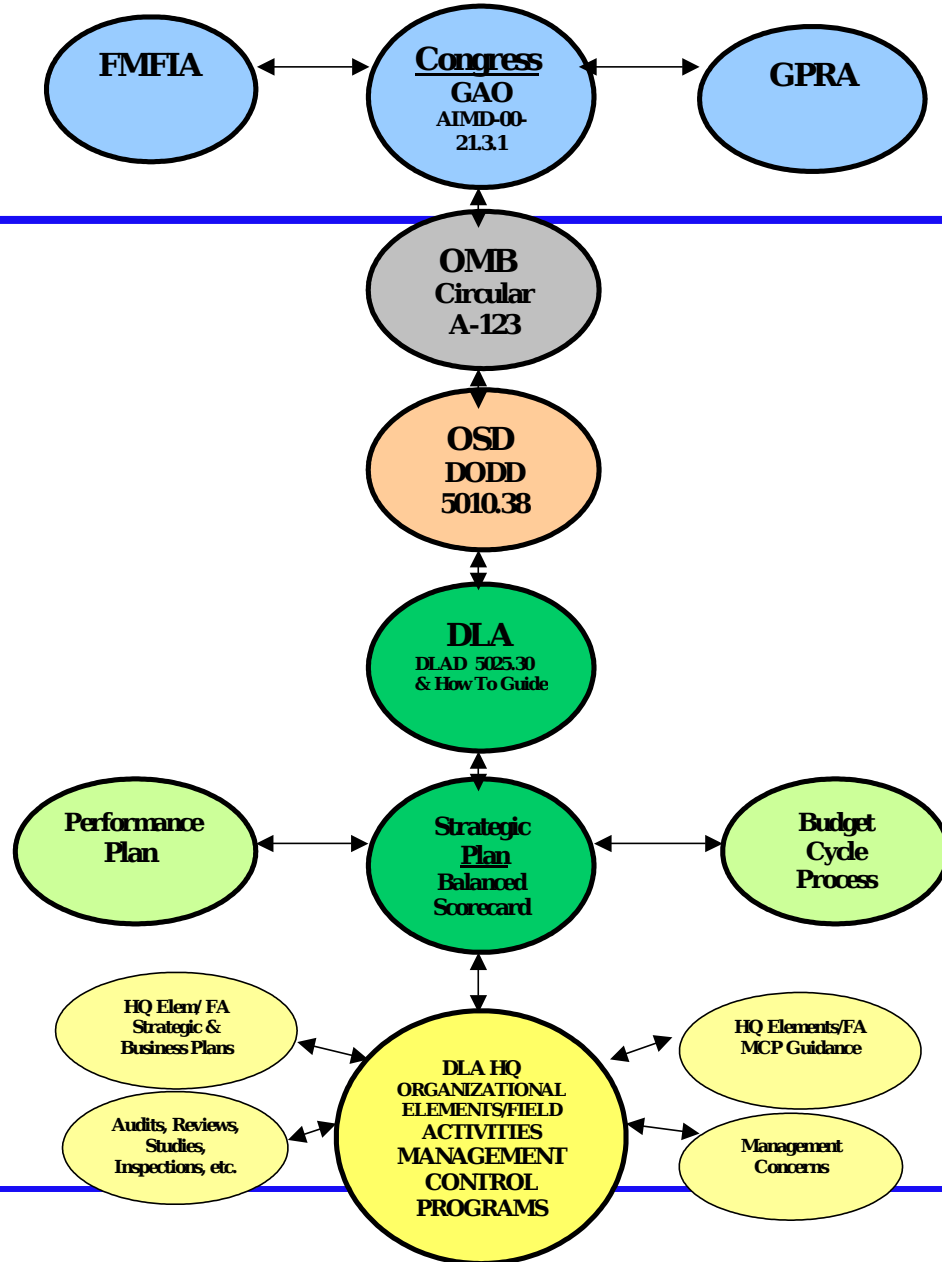
- **Control Environment**
- **Risk Assessment**
- **Control Activities**
- **Information and Communications**
- **Monitoring**

Module IV

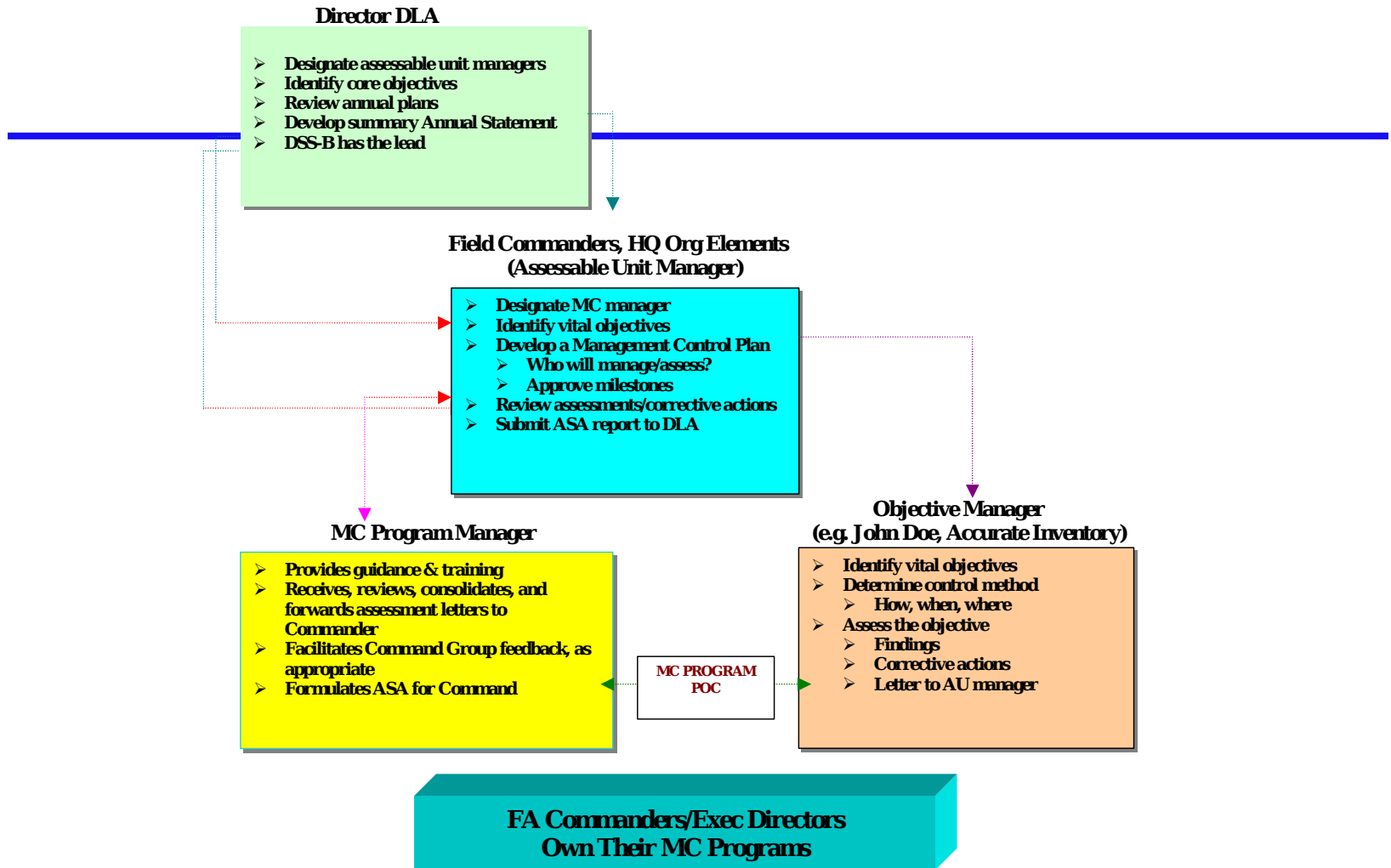
DLA Implementation

A Practical Approach

MANAGEMENT CONTROLS - THE BIG PICTURE



DLA - MC PROGRAM PROCESS FLOW



Framework

- **MC Program-** a system that establishes criteria for mission objectives. (plan, assess, document)
- **Purpose-** to detect and avoid potential problems, as well as to resolve existing problems internally.

What is Inherent Risk?

- **A risk (exposure to loss, damage, injury, and failure or exposure to forces that threaten accomplishment of mission objectives). This includes potential compliance violations.**
- **Inherent risks are those that cannot be avoided due to the nature of the work/ program.**

Limitations

- **Reasonable Assurance- NOT ABSOLUTE**
- **Fraud/ Collusion**
- **Cost Benefit**

Module V

Management Control Process

Management Control Plans

5 Basic Steps

Determine

Mission, Goals, Objectives

Risk that could keep us from meeting mission

Impact of each risk on the mission

Management Control Objective:

Management's commitment (policy) to implement techniques to keep the risk from occurring.

Management Control Techniques:

Procedures implemented or needed to provide "reasonable assurance" the

The MC Objective Assessment Process

- **Developing Effective Evaluation Plans for Areas to be Reviewed**
- **Testing Controls - Are they working?**
- **Documenting the Evaluation**

Alternative Evaluations

- **DLA Guidance - “Several methods of assessment are available for managers to use. These methods include checklists, existing management reviews, a compilation of management analysis practices and procedures to include program evaluation, audit findings by Internal Review and external agencies; and where necessary, focused studies and/or management control reviews.”**

Test Management Controls

- **Document Analysis**
- **Observations**
- **Evaluation Checklist**
- **Physical examination**
- **Interviews**
- **Transaction Testing**
- **Questionnaires**
- **Confirmations**

Unusual Encounters

- **Opportunities**
- **Red Flags**

Why Document the Evaluation?

- **Required by OMB-123**
- **Helps evaluators follow-up on problems identified**
- **Helps the evaluator perform future evaluations**
- **Threshold Standard: Could another manager look at the documentation, replicate the evaluation, and reach the same conclusion?**

Assessment Results

- **OK**
- **Control (s) out of tolerance but fixed**
- **Concern**
- **Weakness**
- **Keep your documentation (if there is a weakness found later and you reported it as OK, you must be able to justify your findings)**

Module VI

Post Evaluation Considerations

Problems? Report Them

- **Management control problems or deficiencies should be reported.**
- **Material Weakness - The absence or ineffectiveness of management controls constitutes a control weakness that must be corrected.**

Weaknesses and Concerns

Material Weakness: Deficiency that is a matter of interest to the next level of management, in that it (1) significantly impairs the mission; (2) deprives the public of needed services; (3) violates statutory or regulatory requirements; (4) significantly weakens safeguards against fraud, waste, or mismanagement of funds, property, or other assets; or (5) results in a conflict of interest

Concern: Item that has the potential for evolving into a

material weakness as a result of the absence₂₈ or ineffectiveness of management controls

I Believe it is a Material Weakness - What Next?

- **Managers make their recommendation to Command, regarding material weaknesses**
- **Command decides if it is a material weakness**
- **At each level of Command, e.g., DLA, DoD, the issue is reexamined**
- **Annual Statement of Assurance**

Module VII

Reporting Requirements

Module VIII

Summary



Accomplishment of Course Objectives

Closing

- **Thanks for your participation!**
- **Any questions? Ask your local MC Program Manager, or Kathy Elliott at
DSN 427-7380**